

**Dallas County Hospital**  
Perry, Iowa

**Basic Financial Statements and  
Supplementary Information  
June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

# Dallas County Hospital

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## Dallas County Hospital

Officials  
June 30, 2011

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<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Schulz	Chairman	December 31, 2012
Rich Jones	Vice Chairman	December 31, 2014
Marsha McClintock	Secretary	December 31, 2012
Marc Meyer	Treasurer	December 31, 2016
Julie Connolly	Member	December 31, 2016
Joelle Miner	Member	December 31, 2012
Mary Laborde	Member	December 31, 2014

### Hospital Officials

Matt Wille	Chief Executive Officer	Indefinite
Kevin Kincaid	Chief Operating Officer	August 19, 2011
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandelaar	Chief Clinical Officer	Indefinite

## Independent Auditor's Report

To the Board of Trustees of  
Dallas County Hospital  
Perry, Iowa:

We have audited the accompanying basic financial statements of Dallas County Hospital (Hospital), as of and for the years ended June 30, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Spring Valley, Inc. (Spring Valley), a component unit of Dallas County Hospital as of or for the years ended June 30, 2011 and 2010, for which the Hospital is the guarantor of the debt of Spring Valley. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Spring Valley is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Hospital as of June 30, 2011, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 7 and page 25 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Seim Johnson, LLP*

Omaha, Nebraska,  
October 17, 2011.

# **Dallas County Hospital**

## **Management's Discussion and Analysis June 30, 2011 and 2010**

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As management of Dallas County Hospital (Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2011, 2009 and 2008. Please read it in conjunction with the financial statements, which follow this section.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report includes management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **FINANCIAL HIGHLIGHTS**

- Total assets increased by \$4,799,172 in 2011 to \$35,941,341, compared to a \$1,181,086 increase to \$31,142,169 in 2010.
- Total assets limited as to use increased by \$15,280,257 in 2011, and decreased by \$485,576 in 2010.
- Capital assets, net, decreased by \$172,098 in 2011, and increased by \$355,916 in 2010.
- Total debt remains at zero because it decreased by \$2,520,000 in 2010, leaving us with a \$-0- debt balance, and by \$555,131 in 2009.
- Total net assets increased by \$5,531,835 in 2011, by \$4,362,077 in 2010, and by \$5,160,319 in 2009.
- Net patient service revenue decreased by 7,924,689 in 2011 and by \$678,718 in 2010.
- Expenses decreased by \$4,353,752 or (24)% in 2011, and increased by \$101,062 or 1% in 2010.
- Total margin for fiscal year 2011 was 20.99% and 18.4% for fiscal year 2010.

## Dallas County Hospital

### Management's Discussion and Analysis June 30, 2011 and 2010

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#### FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenue, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets is the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

During the 2011 fiscal year, a portion of the outpatient surgical services (also referred to as DCHOS throughout this report) was sold to a third party that held an option to purchase. Annual gross charges from this business segment were 62.5% of total gross charges in 2010. These services were provided at a location not attached to the Hospital in Perry, Iowa. The Perry location continues to operate as a critical access hospital. Many of the variances described below are a result in the change in services provided as a result of this sale.

Also during the 2011 fiscal year, the Hospital Board adopted a new investment policy. The goals of this policy are to assure preservation of capital through prudent investment strategies; to retain liquidity to meet projected cash needs; to preserve funds for future capital needs, and to realize the best available rate of return. This policy also gives guidance for the balance of operating funds to be maintained at a range of 75-90 days cash on hand. As a result of the adoption of this new policy, assets previously classified as short term investments became board designated as assets limited as to use.

#### NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2011, 2010 and 2009, are presented in Table 1 below.

**Table 1 - Condensed Balance Sheets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Assets:			
Current and other assets	\$ 23,999,540	19,028,270	18,203,100
Capital assets, net	<u>11,941,801</u>	<u>12,113,899</u>	<u>11,757,983</u>
Total assets	<u>35,941,341</u>	<u>31,142,169</u>	<u>29,961,083</u>
Liabilities:			
Long-term debt outstanding	--	--	2,520,000
Other liabilities	<u>4,054,151</u>	<u>4,786,814</u>	<u>5,447,805</u>
Total liabilities	<u>4,054,151</u>	<u>4,786,814</u>	<u>5,447,805</u>
Net Assets:			
Invested in capital assets, net of related debt	11,941,801	12,113,899	9,237,983
Restricted for debt service	--	--	302,976
Expendable for property and equipment	25,000	30,440	--
Unrestricted	<u>19,920,389</u>	<u>14,211,016</u>	<u>12,452,319</u>
Total net assets	\$ <u>31,887,190</u>	<u>26,355,355</u>	<u>21,993,278</u>

As seen by Table 1, net assets increased by \$5,531,835 in 2011, and by \$4,362,077 in 2010.

# Dallas County Hospital

## Management's Discussion and Analysis June 30, 2011 and 2010

### REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2011, 2010 and 2009:

***Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Assets***

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 12,541,840	20,466,529	21,145,247
County tax revenue	1,991,172	1,892,530	1,932,853
Other operating revenue	<u>267,354</u>	<u>169,630</u>	<u>201,272</u>
<b>Total operating revenue</b>	<u>14,800,366</u>	<u>22,528,689</u>	<u>23,279,372</u>
<b>Operating Expenses:</b>			
Salaries	4,417,100	5,022,555	4,947,724
Employee benefits	1,041,600	1,210,740	1,119,087
Professional fees	3,675,139	4,187,846	3,892,251
Supplies and other	3,553,339	6,647,909	7,181,829
Depreciation and amortization	<u>1,278,724</u>	<u>1,250,604</u>	<u>1,077,701</u>
<b>Total operating expenses</b>	<u>13,965,902</u>	<u>18,319,654</u>	<u>18,218,592</u>
<b>Operating Income</b>	<u>834,464</u>	<u>4,209,035</u>	<u>5,060,780</u>
<b>Nonoperating Revenue , Net:</b>			
Rental property, net	27,540	21,345	23,183
Investment income	225,857	207,665	322,927
Gain on sale of outpatient surgical services	4,425,374	--	--
Loss on disposal of capital assets	(12,015)	(20,086)	12,000
Other nonoperating revenue and expenses, net	<u>(9,360)</u>	<u>(9,260)</u>	<u>(57,225)</u>
<b>Nonoperating revenue, net</b>	<u>4,657,396</u>	<u>199,664</u>	<u>300,885</u>
<b>Excess of Revenue Over Expenses Before Change in Net Unrealized Gains and Losses and Capital Grants and Contributions</b>	<u>5,491,860</u>	<u>4,408,699</u>	<u>5,361,665</u>
<b>Change in Net Unrealized Gains and Losses on Other Than Trading Securities</b>	<u>9,998</u>	<u>--</u>	<u>--</u>
<b>Capital Grants and Contributions</b>	<u>93,760</u>	<u>128,839</u>	<u>13,412</u>
<b>Transfers to Foundation and Spring Valley</b>	<u>(63,783)</u>	<u>(175,461)</u>	<u>(214,748)</u>
<b>Increase in Net Assets</b>	<u>5,531,835</u>	<u>4,362,077</u>	<u>5,160,319</u>
<b>Net Assets, beginning of year</b>	<u>26,355,355</u>	<u>21,993,278</u>	<u>16,832,959</u>
<b>Net Assets, end of year</b>	<u>\$ 31,887,190</u>	<u>26,355,355</u>	<u>21,993,278</u>

## Dallas County Hospital

### Management's Discussion and Analysis June 30, 2011 and 2010

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#### Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2011 were 229 compared to 202 in 2010. Acute patient days increased nicely in conjunction with the increase in discharges. Acute patient days increased by 48 days in 2011 to 697, decreased in 2010 by 408 to 649 from 1,057 in 2009. Swing bed discharges decreased by 18 for fiscal year 2011 to a total of 81 discharges. It is management's opinion that advancements in technology that include less invasive orthopedic procedures are contributing to this decrease in swing bed patient volume. Outpatient visits (Perry, Iowa location only) increased in 2011 by 480 visits to 27,307 compared to an increase of 1,152 to 26,827 visits in fiscal year 2010. The following departments did experience increases in volumes for fiscal year 2011; Specialty Clinics, Operating Room, General Radiology, Mammograms, Pulmonary Rehabilitation, Laboratory, Physical Therapy, Speech Therapy, and Corp Wellness Services.
- **Net Patient Service Revenue:** Gross patient service revenue decreased by \$18,340,552 or (51%) compared to fiscal year 2010. Gross patient service revenue from the Perry, Iowa location services increased by \$834,098 or 7%. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) decreased by \$10,165,935. Contractual allowances as a percentage of gross patient revenue decreased to 20.69% of gross charges in 2011 compared to 38.66% in 2010. The change in contractual allowances is twofold. Contractual allowances decrease due to the loss of volumes from the sale of DCHOS. For the Perry, Iowa location business contractual allowances increased due to a change in reimbursement from the largest commercial payer, Wellmark. Effective October 1, 2010 reimbursement from this payer transitioned from a percentage of charge model to a fee schedule on an ambulatory grouping system. Initial analysis of this reimbursement model is an estimated decrease in net reimbursement of approximate 2% to 3%.
- **Changes in Net Assets:** In fiscal year 2011, \$63,783 was transferred to Spring Valley, Inc. and Dallas County Hospital Foundation, Inc, compared to \$175,461 in 2010. These amounts are considered to be a transfer of equity to these related organizations.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2011, 2010 and 2009:

**Table 3 - Payer Mix by Percentage**

	June 30		
	2011	2010	2009
Medicare	43.00%	51.35%	52.29%
Blue Cross (Wellmark)	20.40%	19.48%	19.54%
Medicaid	10.50%	6.71%	5.92%
Private Pay	5.20%	2.40%	2.52%
Other commercial insurance	20.90%	20.06%	19.73%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Significant changes in operations from fiscal year 2011:

- **Other Operating Revenue:** Fiscal year 2011 showed a increase of \$97,724 in other operating revenue.
- **Salary & Benefits Expense:** Salary expense decreased \$774,595 or (12.43%). Salary and benefit expense constitutes 39.1% of total expenses in 2011. Full time equivalents (FTE's) decreased from 115.73 in 2010 to 94.39 in 2011. Eighteen FTE's were eliminated with the sale of DCHOS; an additional 3.34 FTE's was decreased as a result of continued efforts of Hospital management to match staffing levels with patient volumes.



## Dallas County Hospital

### Management's Discussion and Analysis June 30, 2011 and 2010

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Each position at time of turnover is evaluated for the opportunity of realignment of responsibilities within current staffing levels. This organization, while being in close proximity to the Des Moines, Iowa metropolitan area and the continued increase in regulatory requirements, strives to be fiscally responsible with its resources and proactively adjust wages to retain and attract talented and qualified staff. At the same time the Hospital must ensure adequate support staff is available to monitor and administer regulations to remain compliant with State and Federal guidelines.

- **Professional Fees:** Fiscal year 2011 showed a decrease of \$512,707 or (12.25)% decrease in professional fees.
- **Depreciation and Amortization:** Fiscal year 2011 showed an increase in depreciation and amortization by \$28,120.
- **Other Expenses:** Fiscal year 2011 showed a decrease in other expenses of \$380,359.
- **Supplies:** Decrease in supply expense is in relation to the decreased revenue in both Inpatient and outpatient services for fiscal year 2011.

### CAPITAL ASSETS

At the end of fiscal year 2011, the Hospital has invested a total of \$1,216,486 in capital assets. \$441,286 was put into the North Parking lot and green space. Other areas receiving capital improvements were the Bistro area and tray line as well as other miscellaneous medical equipment and facility infrastructure totaling \$689,119. The Hospital started the journey to meet meaningful use therefore also invested \$86,081 toward the technology infrastructure with a goal to meet State I requirement during fiscal year 2012.

The following table summarizes the Hospital's capital assets as of June 30, 2011, 2010 and 2009:

**Table 4 - Capital Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land	\$ 69,523	69,523	69,523
Land Improvements	1,780,959	1,354,437	384,892
Buildings	5,598,939	5,598,939	5,860,096
Building service equipment	7,166,989	7,162,265	8,670,787
Fixed equipment	1,489,207	1,313,600	937,713
Major moveable equipment	5,405,802	5,024,097	6,742,351
Construction in progress	<u>14,652</u>	<u>96,801</u>	<u>1,117,428</u>
Subtotal	21,526,071	20,619,662	23,782,790
Less accumulated depreciation	<u>9,584,270</u>	<u>8,505,763</u>	<u>12,024,807</u>
Property plant and equipment, net	<u>\$ 11,941,801</u>	<u>12,113,899</u>	<u>11,757,983</u>

## **Dallas County Hospital**

### **Management's Discussion and Analysis June 30, 2011 and 2010**

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#### **DEBT ADMINISTRATION**

##### **Long-Term Debt**

At year-end, the Hospital had \$-0- in short- and long-term debt related to Hospital Revenue Bonds and Notes. The outstanding debt for capital equipment leases at the end of fiscal year 2010 was \$-0-. All outstanding debt was retired in fiscal year 2010 and not new debt has been issued as of end of fiscal year 2011. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements.

##### **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact Administration at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

# Dallas County Hospital

## Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 355,570	1,022,861
Short term investments	3,431,767	11,819,148
Receivables -		
Patient, net of allowance for doubtful accounts of \$496,428 in 2011 and \$767,400 in 2010	964,730	2,081,455
Other	63,174	96,560
Succeeding year property tax	2,095,122	2,008,826
Inventories	218,238	348,280
Prepaid expenses	180,302	240,760
Total current assets	7,308,903	17,617,890
Assets limited as to use	16,690,637	1,410,380
Capital assets, net	11,941,801	12,113,899
Total assets	<u>\$ 35,941,341</u>	<u>31,142,169</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable -		
Trade	670,509	881,439
Construction	--	120,164
Salaries, wages and accrued vacation payable	425,098	444,109
Payroll taxes withheld	81,783	90,329
Estimated third-party payor settlements - Medicare and Medicaid	723,979	1,238,694
Deferred revenue - previous year's property taxes	57,660	3,253
Total current liabilities	1,959,029	2,777,988
Deferred revenue for succeeding year property tax receivable	2,095,122	2,008,826
Total liabilities	<u>4,054,151</u>	<u>4,786,814</u>
Net assets:		
Invested in capital assets, net of related debt	11,941,801	12,113,899
Restricted -		
Expendable for property and equipment	25,000	30,440
Unrestricted	19,920,389	14,211,016
Total net assets	<u>31,887,190</u>	<u>26,355,355</u>
Total liabilities and net assets	<u>\$ 35,941,341</u>	<u>31,142,169</u>

See notes to financial statements

# Dallas County Hospital

## Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 13,101,466	21,276,083
Provision for bad debt	<u>(559,626)</u>	<u>(809,554)</u>
Net patient service revenue	12,541,840	20,466,529
County tax revenue	1,991,172	1,892,530
Other operating revenue	<u>267,354</u>	<u>169,630</u>
Total operating revenue	<u>14,800,366</u>	<u>22,528,689</u>
OPERATING EXPENSES:		
Salaries	4,417,100	5,022,555
Employee benefits	1,041,600	1,210,740
Professional fees	3,675,139	4,187,846
Utilities	554,468	968,159
Supplies	1,421,423	3,550,059
Repairs, maintenance and small equipment	421,260	546,751
Depreciation and amortization	1,278,724	1,250,604
Insurance	171,635	205,818
Interest	-	12,210
Other	<u>984,553</u>	<u>1,364,912</u>
Total operating expenses	<u>13,965,902</u>	<u>18,319,654</u>
OPERATING INCOME	<u>834,464</u>	<u>4,209,035</u>
NONOPERATING REVENUE, NET:		
Rental property, net	27,540	21,345
Investment income	225,857	207,665
Gain on sale of portion of outpatient surgical services	4,425,374	-
Loss on disposal of capital assets	(12,015)	(20,086)
Other nonoperating expense, net	<u>(9,360)</u>	<u>(9,260)</u>
Nonoperating revenue, net	<u>4,657,396</u>	<u>199,664</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN NET UNREALIZED GAINS AND LOSSES AND CAPITAL GRANTS AND CONTRIBUTIONS	5,491,860	4,408,699
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	9,998	-
CAPITAL GRANTS AND CONTRIBUTIONS	93,760	128,839
TRANSFERS TO FOUNDATION AND SPRING VALLEY	<u>(63,783)</u>	<u>(175,461)</u>
INCREASE IN NET ASSETS	5,531,835	4,362,077
NET ASSETS, beginning of year	<u>26,355,355</u>	<u>21,993,278</u>
NET ASSETS, end of year	<u>\$ 31,887,190</u>	<u>26,355,355</u>

See notes to financial statements

# Dallas County Hospital

## Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 13,143,850	19,885,827
Cash paid to employees for salaries and benefits	(5,486,257)	(6,313,115)
Cash paid to suppliers and contractors	(7,248,908)	(10,844,135)
Other receipts and payments, net	<u>292,114</u>	<u>110,452</u>
Net cash provided by operating activities	<u>700,799</u>	<u>2,839,029</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	<u>2,044,845</u>	<u>1,900,585</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,388,431)	(1,832,208)
Proceeds from the sale of portion of outpatient surgical services	4,575,000	--
Principal paid on long-term debt	--	(2,520,000)
Interest paid on long-term debt	--	(23,598)
Capital grants and contributions	<u>93,760</u>	<u>128,839</u>
Net cash provided by (used in) capital and related financing activities	<u>3,280,329</u>	<u>(4,246,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to (withdrawals from) short term investments, net	8,387,381	(928,507)
Deposits to (withdrawals from) assets limited as to use	(15,254,880)	491,779
Investment income	210,478	201,462
Cash received from rental property	27,540	21,345
Transfers to Foundation and Spring Valley	<u>(63,783)</u>	<u>(175,461)</u>
Net cash used in investing activities	<u>(6,693,264)</u>	<u>(389,382)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(667,291)	103,265
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,022,861</u>	<u>919,596</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 355,570</u>	<u>1,022,861</u>

See notes to financial statements

## Dallas County Hospital

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 834,464	4,209,035
Adjustments to reconcile operating income to net cash provided by operating activities -		
County tax revenue	(1,991,172)	(1,892,530)
Other nonoperating expense, net	(9,360)	(9,260)
Depreciation and amortization	1,278,724	1,250,604
Interest expense included in operating expenses	--	12,210
(Increase) decrease in current assets -		
Receivables -		
Patients	1,116,725	(91,424)
Other	34,120	(49,917)
Inventories	130,042	17,768
Prepaid expenses	60,458	(97,350)
Increase (decrease) in current liabilities -		
Accounts payable	(210,750)	58,992
Salaries, wages and accrued vacation payable	(19,011)	(71,150)
Accrued payroll taxes and other	(8,546)	(8,670)
Estimated third-party payor settlements - Medicare and Medicaid	<u>(514,715)</u>	<u>(489,278)</u>
Net cash provided by operating activities	<u>\$ 700,979</u>	<u>2,839,030</u>

*See notes to financial statements*

**Spring Valley, Inc.**  
(A Component Unit of Dallas County Hospital)

**Statements of Financial Position**  
**June 30, 2011 and 2010**

ASSETS	June 30	
	2011	2010
<b>CURRENT ASSETS</b>		
Cash	\$ 138,094	74,914
Contributions receivable	--	68,000
Other receivables	10,388	3,756
Prepaid expenses	10,576	3,569
Total current assets	<u>159,058</u>	<u>150,239</u>
<b>RESTRICTED CASH AND INVESTMENTS</b>		
Bond fund	132,513	129,559
Debt service reserve fund	391,151	391,479
Repair and replacement fund	67,439	60,224
Total restricted cash and investments	<u>591,103</u>	<u>581,262</u>
<b>PROPERTY AND EQUIPMENT</b>		
Spring Valley Retirement Facility	4,958,822	4,910,162
Less accumulated depreciation and amortization	<u>2,161,208</u>	<u>1,981,599</u>
Total property and equipment	<u>2,797,614</u>	<u>2,928,563</u>
<b>OTHER ASSET</b>		
Deferred debt issue costs, net of accumulated amortization	<u>96,834</u>	<u>113,674</u>
Total assets	<u>\$ 3,644,609</u>	<u>3,773,738</u>
<b>LIABILITIES AND NET (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 150,000	140,000
Accounts payable	31,273	29,611
Accrued payroll	26,041	19,689
Deposits	49,450	44,850
Accrued interest	80,693	83,493
Total current liabilities	<u>337,457</u>	<u>317,643</u>
<b>LONG-TERM DEBT, less current maturities</b>	<u>4,055,000</u>	<u>4,205,000</u>
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted		
Designated by the Board for debt service payments	53,647	--
Undesignated	(804,113)	(816,905)
Temporarily restricted	2,618	68,000
Total net assets (deficit)	<u>(747,848)</u>	<u>(748,905)</u>
Total liabilities and net (deficit)	<u>\$ 3,644,609</u>	<u>3,773,738</u>

*See notes to financial statements*

**Spring Valley, Inc.**  
**(A Component Unit of Dallas County Hospital)**

**Statements of Activities**  
**For the Years Ended June 30, 2011 and 2010**

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenues		
Contributions and grants	\$ 1,091	290
Rental income		
Assisted and independent living units	1,242,913	1,183,067
Garage, guest room and other	18,215	18,178
Meal income	4,706	6,516
Catering	3,357	3,094
Investment return	2,997	8,532
Gain on option to purchase property	113,600	--
Total unrestricted revenues	<u>1,386,879</u>	<u>1,219,677</u>
Net asset released from restriction	65,382	--
Total unrestricted revenues and other support	<u>1,452,261</u>	<u>1,219,677</u>
Expenses		
Program services		
Salaries	505,879	455,557
Fringe benefits and payroll taxes	83,154	75,837
Meals	78,928	71,004
Total program services	<u>667,961</u>	<u>602,398</u>
Supporting services		
Administration and general	80,200	92,995
Management fee	52,500	52,500
Rent expense	8,085	7,700
Operation of plant	109,152	108,975
Depreciation and amortization	233,827	230,141
Total supporting services	<u>483,764</u>	<u>492,311</u>
Interest	<u>247,680</u>	<u>258,810</u>
Total expenses	<u>1,399,405</u>	<u>1,353,519</u>
Increase (decrease) in unrestricted net assets before transfers	52,856	(133,842)
Transfers from Dallas County Hospital	<u>13,583</u>	<u>68,241</u>
Increase (decrease) in unrestricted net assets	<u>66,439</u>	<u>(65,601)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions from Dallas County Hospital	--	68,000
Net assets released from restriction	<u>(65,382)</u>	<u>--</u>
Increase (decrease) in temporarily restricted net assets	<u>(65,382)</u>	<u>68,000</u>
<b>CHANGE IN NET (DEFICIT)</b>	<u>1,057</u>	<u>2,399</u>
<b>NET (DEFICIT)</b>		
Beginning	<u>(748,905)</u>	<u>(751,304)</u>
Ending	<u>\$ (747,848)</u>	<u>(748,905)</u>

*See notes to financial statements*



**Spring Valley, Inc.**  
(A Component Unit of Dallas County Hospital)

**Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net (deficit)	\$ 1,057	2,399
Adjustments to reconcile change in net (deficit) to net cash provided by operating activities		
Depreciation and amortization	233,827	230,141
Unrealized and realized loss on investments	8,629	3,463
Change in assets and liabilities		
(Increase) in contributions receivable	68,000	(68,000)
Decrease in prepaid expenses	(7,007)	313
(Increase) decrease in other receivables	(6,632)	(2,881)
(Decrease) in accounts payable, net of amounts for property and equipment	1,662	(1,119)
Increase (decrease) in accrued payroll	6,352	(711)
Increase (decrease) in deposits	4,600	10,450
(Decrease) in accrued interest	(2,800)	(2,556)
Net cash provided by operating activities	<u>307,688</u>	<u>171,499</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Funding) of bond fund	(2,954)	(91)
Liquidation (funding) of debt service reserve fund	(8,303)	2,567
(Funding) of repair and replacement fund	(7,215)	(7,215)
Purchase of property and equipment	(86,036)	--
Net cash (used in) investing activities	<u>(104,508)</u>	<u>(4,739)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term borrowings	<u>(140,000)</u>	<u>(130,000)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	63,180	36,760
<b>CASH</b>		
Beginning	<u>74,914</u>	<u>38,154</u>
Ending	\$ <u><u>138,094</u></u>	<u><u>74,914</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ <u><u>250,480</u></u>	<u><u>261,366</u></u>

*See notes to financial statements*

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of significant accounting policies of Dallas County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347, of the Code of Iowa, and governed by a seven member Board of Trustees elected for terms of six years.

#### A. Reporting Entity

For financial reporting purposes, the Hospital has included all the funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2011 and 2010, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Spring Valley, Inc. (Spring Valley). Spring Valley's financial statements are separately presented on pages 12 – 14.

These financial statements present the Hospital and Spring Valley (its component unit). Certain disclosures about Spring Valley are not included because Spring Valley has been audited separately and a report has been issued under separate cover.

#### B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

#### C. Net Assets

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and amortization and are reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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### Restricted net assets:

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

### *D. Basis of Accounting and Presentation*

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenue, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenue and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenue and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

### *E. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by bond indenture agreements.

### *G. Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### *H. Property Taxes*

For the years ended June 30, 2011 and 2010, the Hospital received approximately 13% and 8%, respectively, of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

### *I. Assets Limited as to Use*

Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

### *J. Capital Assets*

The Hospital's capital assets are recorded at historical cost. Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line half-year method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 – 20 years
Buildings and fixed equipment	5 – 40 years
Major moveable equipment	3 – 25 years

### *K. Compensated Absences*

Employees of the Hospital earn annual paid time off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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*L. Deferred Revenue*

Deferred revenue consists of property taxes received but not spent.

*M. Investments in Debt and Equity Securities*

Investments in debt and equity securities, including securities held through external investment pools, are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and realized gains and losses on investments in debt and equity securities are included in nonoperating revenue unless restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investment are trading securities.

*N. Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

*O. Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*P. Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

*Q. Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

*R. Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines.

*S. Risk Management*

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

## Dallas County Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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#### *T. Income Taxes*

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Spring Valley is exempt from income taxes under Section 510 of the Internal Revenue Code and a similar provision of state law. However, Spring Valley is subject to federal income tax on any unrelated business taxable income.

#### *U. Subsequent Events*

The Hospital considered events occurring through October 17, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

### **(2) Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2010.

**Medicaid** – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011, and 51% and 7%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2011, net patient service revenue increased approximately \$649,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2011 and 2010 is as follows:

## Dallas County Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient	\$ 1,167,525	1,109,783
Outpatient	15,576,261	33,822,656
Swingbed	820,751	972,650
	<u>17,564,537</u>	<u>35,905,089</u>
Total gross patient service revenue		
Contractual adjustments:		
Medicare	(1,295,715)	(9,873,073)
Medicaid	(947,029)	(1,201,992)
Other	(1,391,865)	(2,806,722)
Charity care services	(828,462)	(747,219)
	<u>(4,463,071)</u>	<u>(14,629,006)</u>
Total contractual adjustments		
Net patient and resident service revenue before provision for bad debt	\$ <u>13,101,466</u>	<u>21,276,083</u>

### (3) Deposits and Investments

The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are carried at fair value. As of June 30, 2011 and 2010, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash and money market funds	\$ 1,196,067	3,308,388
Certificates of deposit	13,040,437	9,790,917
Government Agency Securities	5,747,439	--
Iowa Public Agency Investment Trust	--	7,141
Accrued interest receivable	138,461	123,082
	<u>\$ 20,122,404</u>	<u>13,229,528</u>

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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*Interest Rate Risk:* The primary objectives of the Hospital's investment policy is to assure preservation of capital through investments in government insured vehicles, to retain liquidity to meet projected cash needs, and to realize the best available rate of return.

*Credit Risk:* Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, the Hospital's investments in government agency securities are guaranteed by the U.S. Government.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments at June 30, 2011, are held by the third-party custodians in the Hospital's name.

*Concentration of Credit Risk:* The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2011, the Hospital's investments in government agency securities constituted 100% of its total investments.

### (4) Assets Limited as to Use

#### By Board

Cash deposits, certificates of deposit, and government agency securities designated by the Board for future capital improvements as of June 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Capital Improvements -		
Cash and money market funds	\$ 251,735	787,399
Certificates of deposit	10,553,002	492,758
Government Agency Securities	5,747,439	--
Iowa Public Agency Investment Trust	--	7,141
Accrued interest receivable	<u>138,461</u>	<u>123,082</u>
	<u>\$ 16,690,637</u>	<u>1,410,380</u>

#### By Donor

The Hospital Foundation conducts various projects to raise funds which are used to satisfy needs of the Hospital as determined by its executive Board and the Hospital Board of Trustees.

The amounts segregated as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Expendable for property and equipment		
Cash and money market funds	\$ <u>25,000</u>	<u>30,440</u>



# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

### (5) Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	96,801	568,134	(650,283)	14,652
Total capital assets, not being depreciated	166,324	568,134	(650,283)	84,175
Capital assets, being depreciated:				
Land Improvements	1,354,437	--	426,522	1,780,959
Buildings and fixed equipment	14,074,804	--	180,331	14,255,135
Major moveable equipment	5,024,097	550,507	(168,802)	5,405,802
Total capital assets, being depreciated	20,453,338	550,507	438,051	21,441,896
Less accumulated depreciation:				
Land Improvements	(73,130)	(111,837)	--	(184,967)
Buildings and fixed equipment	(4,918,934)	(700,196)	18,821	(5,600,309)
Major moveable equipment	(3,513,699)	(466,691)	181,396	(3,798,994)
Total accumulated depreciation	(8,505,763)	(1,278,724)	200,217	(9,584,270)
Total capital assets, being depreciated, net	11,947,575	(728,217)	638,268	11,857,626
Total capital assets, net	\$ 12,113,899	(160,083)	(12,015)	11,941,801
	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	1,117,428	907,207	(1,927,834)	96,801
Total capital assets, not being depreciated	1,186,951	907,207	(1,927,834)	166,324
Capital assets, being depreciated:				
Land Improvements	384,892	--	969,545	1,354,437
Buildings and fixed equipment	15,468,596	134,436	(1,528,228)	14,074,804
Major moveable equipment	6,742,351	494,655	(2,212,909)	5,024,097
Total capital assets, being depreciated	22,595,839	629,091	(2,771,592)	20,453,338
Less accumulated depreciation:				
Land Improvements	(369,574)	(50,477)	346,921	(73,130)
Buildings and fixed equipment	(6,302,943)	(677,543)	2,061,552	(4,918,934)
Major moveable equipment	(5,352,290)	(432,276)	2,270,867	(3,513,699)
Total accumulated depreciation	(12,024,807)	(1,160,296)	4,679,340	(8,505,763)
Total capital assets, being depreciated, net	10,571,032	(531,205)	1,907,748	11,947,575
Total capital assets, net	\$ 11,757,983	376,002	(20,086)	12,113,899

Depreciation expense of \$1,278,724 and \$1,160,296 in 2011 and 2010, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

## Dallas County Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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#### (6) Sale of a Portion of Outpatient Surgical Services

During 2006, the Hospital entered into a lease agreement (Agreement) with Clinic Investments, Inc. (Lessor), commencing in February 2007, for a Medical Office Building (Unit) located in West Des Moines, Iowa, for the purpose of operating a provider-based outpatient surgical services facility in West Des Moines, Dallas County, Iowa (DCH outpatient surgery). Lease payments were established in accordance with the Agreement for the Unit and were fixed for the initial five-year term of the lease. Upon attainment of the second anniversary of the lease commencement date, Lessor had the right to terminate the Agreement without cause by giving 90 days of proper notice. At such time the Agreement was terminated, the Hospital no longer is obligated as lessee of the Unit. Rental expense for the operating lease was \$29,973 and \$360,517 for the years ended June 30, 2011 and 2010, respectively.

In conjunction with the Agreement, the Hospital had also entered into equipment leases for equipment needed to provide services at the Unit. Commencements of the equipment leases were simultaneous with the terms of the Agreement. Lease payments were established in accordance with the lease document and were fixed for the initial five-year term of the lease. However, the Lessor had the right to terminate these equipment leases simultaneously with the Agreement disclosed in the previous paragraph. Rental expense for the operating lease was \$28,582 and \$239,864 for the years ended June 30, 2011 and 2010, respectively.

In addition, the Hospital entered into a management agreement for the purposes of rendering management and administrative services needed for the operations of the Unit. Commencement of the management agreement was simultaneous with the terms of the Agreement. The Hospital was required to pay an annual fixed management fee of \$40,000 in 2011 and \$480,000 in 2010 adjusted every two years as defined in the management document.

Effective August 2, 2010, in accordance with terms of the Agreement between the Hospital and Clinic Investments, Inc., Clinic Investments, Inc. exercised its option to terminate the Agreement and purchase assets from the Hospital used to operate the outpatient surgery service. Termination of the Agreement relieved the Hospital of all future obligations. The following summarizes the closing statement:

Asset purchase agreement -	
Base purchase price	\$ 4,575,000
Indebtedness assumed by purchaser	(7,128)
Expenses paid by seller	<u>18,488</u>
	\$ <u>4,586,360</u>

The following summarizes the gain recorded on the sale of the outpatient surgery service:

Purchase price per closing statement	\$ 4,586,360
Net assets purchased	<u>(160,986)</u>
	\$ <u>4,425,374</u>

#### (7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained or should coverage be limited and/or not available.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2011 and 2010

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Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Hospital is not aware of any known claims or incidents that may be asserted from services to patients. Based upon the Hospital's claims experience, no such accrual has been made.

### (8) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Hospital is required to contribute 6.95% of annual covered salary for the year ended June 30, 2011, and plan members were required to contribute 4.30% of their annual covered salary and the Hospital was required to contribute 6.65% for the year ended June 30, 2010. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011 and 2010 were \$302,006 and \$332,238, respectively, equal to the required contributions for each year.

### (9) Operating Leases

The Hospital leases 23,734 rentable square feet (74.99%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease (South Building Addition). The monthly lease payments for the operating lease are minimum monthly payments of \$29,468 through the first five years, and then adjusted for each succeeding five year period by a CPI adjustment as defined in the lease, not to exceed a 5% increase. Rental expense for the operating lease was \$359,510 and \$353,616 for the years ended June 30, 2011 and 2010, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011:

2012	\$	371,297
2013		371,297
2014		371,297
2015		371,297
2016		377,485
2017 – 2020		<u>1,299,539</u>
Total	\$	<u><u>3,162,212</u></u>

### (10) Concentration of Credit Risk

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	23%	35%
Medicaid	4	6
Blue Cross	17	17
Other commercial insurance	19	19
Private pay	<u>37</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

## Dallas County Hospital

### Notes to Financial Statements June 30, 2011 and 2010

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#### (11) Spring Valley, Inc.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that Spring Valley is a component unit of the Hospital. Spring Valley is considered to be a component unit of the Hospital based upon the significance of the related financial obligations with the Hospital. Spring Valley's audited statements of financial position, statements of activities and statements of cash flows of and for the years ended June 30, 2011 and 2010 are included on pages 12-14.

Spring Valley constructed a senior housing facility on the campus of the Hospital entitled the Spring Valley Project (Project). Included in the Project is a limited guarantee agreement by the Hospital with Bankers Trust Company, N.A., the Trustee. The agreement provides that the Hospital would replenish Spring Valley's Debt Service Reserve Fund (Fund) up to its required amount (approximately \$389,000) if funds from the Project are insufficient to maintain the Fund at the required amount. The obligations of the Hospital under the agreement will remain in effect until the date on which the entire principal and interest on the bonds is provided for.

The Hospital has included transfers to Spring Valley of \$13,353 and \$137,604 for the years ended June 30, 2011 and 2010, respectively, in the statements of revenue, expenses and changes in net assets. These amounts are related to capital advances provided by the Hospital to Spring Valley.

In addition, the Hospital provided a \$500,000 loan to Spring Valley which will be repaid as funds become available. This amount is included in long-term debt of Spring Valley found on page 12. During 2006, the Hospital established an allowance for uncollectible amounts of \$500,000 related to the receivable above due to the continued financial losses of Spring Valley.

#### (12) Foundation

On July 1, 2006, Dallas County Hospital Foundation, Inc. (Foundation) was established to raise funds to support the Hospital. The Foundation is governed by a Board of Directors independent of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39. The Foundation's unaudited net assets were approximately \$118,419 and \$108,699 at June 30, 2011 and 2010, respectively. The Foundation transferred \$67,929 and \$1,000 as of June 30, 2011 and 2010, respectively, for the purchase of building construction, property and equipment.

## Dallas County Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended June 30, 2011

The following is a reconciliation between reported amounts and cash disbursements to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 1,991,172	53,673	2,044,845	2,008,826	36,019
Estimated other revenues / receipts	<u>17,506,565</u>	<u>686,551</u>	<u>18,193,116</u>	<u>32,747,563</u>	<u>(18,969,823)</u>
Total	<u>19,497,737</u>	<u>740,224</u>	<u>20,237,961</u>	<u>34,756,389</u>	<u>(18,933,804)</u>
Expenses / Disbursements	<u>13,965,902</u>	<u>71,851</u>	<u>14,037,753</u>	<u>33,518,412</u>	<u>19,480,659</u>
Net	5,531,835	668,373	6,200,208	1,237,977	\$ <u><u>4,962,231</u></u>
Balance beginning of year	<u>26,355,355</u>	<u>(12,226,048)</u>	<u>14,129,307</u>	<u>12,912,610</u>	
Balance end of year	\$ <u><u>31,887,190</u></u>	<u><u>(11,557,675)</u></u>	<u><u>20,329,515</u></u>	<u><u>14,150,587</u></u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

**Dallas County Hospital**

**Exhibit 1**

**Patient Service Revenue  
For the Years Ended June 30, 2011 and 2010**

	2011				2010			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Medical/surgical	\$ 542,344	59,730	--	602,074	487,535	67,435	--	554,970
Swing bed	--	--	468,735	468,735	--	--	549,080	549,080
	<u>542,344</u>	<u>59,730</u>	<u>468,735</u>	<u>1,070,809</u>	<u>487,535</u>	<u>67,435</u>	<u>549,080</u>	<u>1,104,050</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Operating room	23,635	2,567,935	--	2,591,570	28,502	2,387,242	1,850	2,417,594
Emergency department	38,002	2,460,391	--	2,498,393	38,385	1,801,504	364	1,840,253
DCH outpatient surgery	--	1,749,073	--	1,749,073	--	21,141,318	--	21,141,318
Laboratory	92,758	1,402,347	22,804	1,517,909	105,554	1,707,950	38,536	1,852,040
Physical therapy	9,600	1,364,686	85,070	1,459,356	7,121	1,196,845	108,041	1,312,007
Pharmacy	195,852	1,014,764	128,397	1,339,013	175,540	871,381	145,960	1,192,881
CT scans	47,648	1,136,158	8,760	1,192,566	62,774	1,257,985	12,712	1,333,471
Emergency physicians	10,870	1,021,004	--	1,031,874	12,166	830,668	--	842,834
Radiology	12,015	928,659	4,635	945,309	9,224	895,369	3,383	907,976
Mobile MRI	1,965	473,328	4,365	479,658	2,099	413,562	--	415,661
Cardiopulmonary	95,778	161,607	57,904	315,289	83,872	181,327	53,968	319,167
Ultrasounds	17,680	288,711	3,635	310,026	16,715	334,971	4,170	355,856
Sleep studies	--	256,600	--	256,600	--	203,428	--	203,428
Occupational therapy	1,360	197,695	30,030	229,085	2,113	91,051	48,358	141,522
Intravenous therapy	39,283	96,237	18,676	154,196	30,747	47,023	9,598	87,368
Electrocardiology	6,000	119,620	1,440	127,060	7,180	116,656	1,042	124,878
Echocardiology	7,300	103,660	1,460	112,420	12,582	96,443	4,216	113,241
Speech therapy	2,115	44,860	2,700	49,675	2,454	31,958	3,092	37,504
Speciality clinic	--	34,615	--	34,615	--	38,799	--	38,799
Nuclear medicine	--	28,011	--	28,011	--	31,295	--	31,295
Corp wellness	--	25,780	--	25,780	--	20,470	--	20,470
Transfusion services	4,420	15,390	1,040	20,850	11,500	19,500	2,000	33,000
Bone density	--	13,200	--	13,200	--	18,998	--	18,998
Treadmills	--	9,280	--	9,280	--	11,948	--	11,948
Dietician	--	2,920	--	2,920	--	7,530	--	7,530
Anesthesia	--	--	--	--	--	--	--	--
	<u>606,281</u>	<u>15,516,531</u>	<u>370,916</u>	<u>16,493,728</u>	<u>608,528</u>	<u>33,755,221</u>	<u>437,290</u>	<u>34,801,039</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 1,148,625</u>	<u>15,576,261</u>	<u>839,651</u>	<u>17,564,537</u>	<u>1,096,063</u>	<u>33,822,656</u>	<u>986,370</u>	<u>35,905,089</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(3,634,609)				(13,881,787)
Charity care services and other discounts, based on charges forgone				<u>(828,462)</u>				<u>(747,219)</u>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				13,101,466				21,276,083
<b>PROVISION FOR BAD DEBT</b>				<u>(559,626)</u>				<u>(809,554)</u>
<b>NET PATIENT SERVICE REVENUE</b>				<u>\$ 12,541,840</u>				<u>20,466,529</u>

**Other Operating Revenue**  
**For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
Nutritional service	\$ 75,044	64,171
Other	73,477	48,281
South addition maintenance	54,859	38,588
Vendor discounts/rebates	35,885	4,500
Grant revenue	18,802	6,413
Medical records transcripts	9,085	6,478
Dietary instruction	<u>202</u>	<u>1,199</u>
	<u>\$ 267,354</u>	<u>169,630</u>

**Departmental Expenses**  
**For the Years Ended June 30, 2011 and 2010**

	2011				2010			
	Salaries and Wages	Professional Fees	Supplies and Other	Total	Salaries and Wages	Professional Fees	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical/surgical	\$ 830,590	128,995	58,815	1,018,400	759,096	117,965	68,392	945,453
Nursing administration	348,249	--	5,568	353,817	333,461	--	1,579	335,040
	<u>1,178,839</u>	<u>128,995</u>	<u>64,383</u>	<u>1,372,217</u>	<u>1,092,557</u>	<u>117,965</u>	<u>69,971</u>	<u>1,280,493</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency department	376,645	994,760	70,623	1,442,028	405,457	995,390	68,403	1,469,250
Laboratory	265,249	4,020	348,824	618,093	249,149	2,234	419,448	670,831
Pharmacy	156,529	35,666	415,312	607,507	168,325	9,174	348,963	526,462
Physical therapy	--	583,947	7,062	591,009	--	524,537	8,267	532,804
Radiology	1,462	475,329	72,269	549,060	1,896	449,567	52,063	503,526
DCH outpatient surgery	73,899	195,806	266,728	536,433	696,082	868,363	3,326,991	4,891,436
Operating room	205,958	12,254	253,970	472,182	153,607	-	211,604	365,211
Cardiopulmonary	165,447	4,497	29,560	199,504	159,996	6,535	30,314	196,845
Anesthesia	--	135,626	--	135,626	--	114,048	--	114,048
CT scans	--	--	96,453	96,453	--	--	96,397	96,397
Occupational therapy	--	91,634	1,039	92,673	--	56,608	395	57,003
Mobile MRI	--	63,700	--	63,700	--	62,075	--	62,075
Sleep studies	--	62,100	--	62,100	--	51,300	--	51,300
Specialty clinic - south addition	7,799	37,414	3,852	49,065	1,209	30,636	2,084	33,929
Echocardiology	--	48,618	47	48,665	--	51,304	--	51,304
Education	14,111	1,048	6,775	21,934	12,613	1,478	3,755	17,846
Speech therapy	--	20,119	1	20,120	--	15,002	--	15,002
Nuclear medicine	--	11,730	--	11,730	--	13,908	--	13,908
Electrocardiology	--	6,105	455	6,560	--	7,540	431	7,971
Cardiac rehabilitation	--	--	4,428	4,428	--	--	8,730	8,730
Ultrasounds	--	--	289	289	--	--	7,243	7,243
Auxiliary/Foundation coordinator	--	--	77	77	--	--	224	224
Volunteer coordinator	--	--	--	--	--	--	--	--
	<u>1,267,099</u>	<u>2,784,373</u>	<u>1,577,764</u>	<u>5,629,236</u>	<u>1,848,334</u>	<u>3,259,699</u>	<u>4,585,312</u>	<u>9,693,345</u>
<b>GENERAL SERVICES:</b>								
Facility	304,237	-	925,746	1,229,983	319,386	(4,928)	913,480	1,227,938
Nutritional services/dietician	153,077	31,412	108,551	293,040	179,023	10,235	107,326	296,584
Environmental services	105,770	97,096	15,115	217,981	103,433	79,604	15,821	198,858
	<u>563,084</u>	<u>128,508</u>	<u>1,049,412</u>	<u>1,741,004</u>	<u>601,842</u>	<u>84,911</u>	<u>1,036,627</u>	<u>1,723,380</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,408,078</u>	<u>633,263</u>	<u>729,946</u>	<u>2,771,287</u>	<u>1,479,822</u>	<u>725,271</u>	<u>792,039</u>	<u>2,997,132</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation and amortization	--	--	1,278,724	1,278,724	--	--	1,250,604	1,250,604
Employee benefits	--	--	1,001,799	1,001,799	--	--	1,156,671	1,156,671
Insurance	--	--	171,635	171,635	--	--	205,818	205,818
Interest	--	--	-	-	--	--	12,211	12,211
	<u>--</u>	<u>--</u>	<u>2,452,158</u>	<u>2,452,158</u>	<u>--</u>	<u>--</u>	<u>2,625,304</u>	<u>2,625,304</u>
<b>TOTAL EXPENSES</b>	<u>\$ 4,417,100</u>	<u>3,675,139</u>	<u>5,873,663</u>	<u>13,965,902</u>	<u>5,022,555</u>	<u>4,187,846</u>	<u>9,109,253</u>	<u>18,319,654</u>



**Patient Receivables and Allowance for Doubtful Accounts**  
**June 30, 2011 and 2010**

## ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,039,100	58.13 %	2,551,922	61.76 %
31 - 60	245,811	13.75	608,552	14.73
61 - 90	143,735	8.04	299,776	7.25
91 - 120	104,687	5.85	153,346	3.71
> 120	254,317	14.23	518,550	12.55
	<u>1,787,650</u>	<u>100.00 %</u>	<u>4,132,146</u>	<u>100.00 %</u>

## Less:

Allowance for doubtful accounts	(496,428)	(767,400)
Allowance for contractual adjustments	<u>(326,492)</u>	<u>(1,283,291)</u>
	<u>\$ 964,730</u>	<u>2,081,455</u>

	2011	2010
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	26.88 days	35.71 days

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 767,400	762,280
Provision of uncollectible accounts	559,626	809,554
Recoveries of accounts previously written off	259,454	250,926
Accounts written off	<u>(1,090,052)</u>	<u>(1,055,360)</u>
Balance, end of year	<u>\$ 496,428</u>	<u>767,400</u>

**Inventory/Prepaid Expenses**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
INVENTORY:		
DCH outpatient surgery	\$ -	113,391
Departmental	99,710	101,142
Pharmacy	80,258	90,253
General stores/central supply	33,432	36,495
Dietary	<u>4,838</u>	<u>6,999</u>
	\$ <u><u>218,238</u></u>	<u><u>348,280</u></u>
PREPAID EXPENSES:		
Insurance	\$ 142,137	143,577
Other	<u>38,165</u>	<u>97,183</u>
	\$ <u><u>180,302</u></u>	<u><u>240,760</u></u>

**Financial and Statistical Highlights**  
**For the Years Ended June 30, 2011 and 2010**


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	<u>2011</u>	<u>2010</u>
Patient days:		
Acute	697	649
Swingbed	677	835
Respite	<u>74</u>	<u>67</u>
Total	<u><u>1,448</u></u>	<u><u>1,551</u></u>
Patient discharges:		
Acute	229	202
Swingbed	81	99
Respite	<u>17</u>	<u>14</u>
Total	<u><u>327</u></u>	<u><u>315</u></u>
Average length of stay:		
Acute	3.04 days	3.21 days
Swingbed	8.36 days	8.43 days
Respite	4.35 days	4.79 days
Emergency room visits	6,235	6,387
Specialty clinic visits	4,241	4,178
DCH outpatient surgery visits	374	4,593
Other outpatient visits	21,072	20,440
Number of employees - full-time equivalents	94.4	115.7

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Trustees of  
Dallas County Hospital  
Perry, Iowa:

We have audited the financial statements of Dallas County Hospital (Hospital), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Dallas County Hospital, and other parties to whom Dallas County Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Spim Johnson, LLP*

Omaha, Nebraska,  
October 17, 2011.

# Dallas County Hospital

## Schedule of Findings and Responses June 30, 2011

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### Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

### Part II: Findings Related to the Financial Statements

#### *INSTANCES OF DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:*

No significant deficiencies or material weaknesses were identified.

#### *INSTANCES OF NON-COMPLIANCE:*

No matters were reported.

### Part III: Other Findings Related to Required Statutory Reporting

- III-A-11 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.
- III-B-11 Certified Budget: Disbursements during the year ended June 30, 2011 did not exceed the amount budgeted.
- III-C-11 Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-11 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-11 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which permits a direct interest of less than or equal to \$1,500 in transactions between a Hospital Trustee or a Hospital Trustee's spouse and the Hospital.
- III-F-11 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-11 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.
- III-H-11 Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...". We noted no instances of non-compliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor.

## **Dallas County Hospital**

**Audit Staff**  
**June 30, 2011**

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### **This audit was performed by:**

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